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Working Documents

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19 March 1982

DOCUMENT 1-30/82/ANNEXE

ANNEXE

to the report by Mr. David CURRY

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (Doc. 1-1033/81) on the fixing of prices for certain agricultural products and on certain related measures (1982/1983)

- Opinion of the Committee on Budgets
- Opinion of the Committee on the Environment, Public Health and Consumer Protection
- Opinion of the Committee on Development and Cooperation

English Edition

PE 77.140/fin./Ann.

OPINION OF THE COMMITTEE ON BUDGETS

Rapporteur: Mr. ADONNINO

At its meeting of 24 February 1982, the Committee on Budgets appointed Mr Adonnino draftsman of an opinion for the Committee on Agriculture.

At its meeting of 8 and 9 March 1982, the Committee on Budgets adopted the opinion by 16 votes to 1 with 1 abstention.

Took part in the vote:
Mr. Lange, chairman; Mr. Notenboom, first vice-chairman; Mrs Barbarella, second vice-chairman; Mr. Adonnino, draftsman; Mr. Aigner (deputizing for Mr. Ryan), Mr. Baillot, Mr. Balfour, Mr. Brok (deputizing for Mr. Kazazis), Mr. Croux, Mr. Estgen (deputizing for Mr. Lega), Mr. Fich, Mrs Hoff, Mr. Langes, Mr. Pfennig, Mr. Price, Mr. Konrad Schön, Mr. Saby, Mrs Scrivener, Mr. Simmonds and Mr. Simonnet.

EXPLANATORY STATEMENT

1. The development of the CAP

The reform of the common agricultural policy is one of the three essential requests which emerged from the Mandate of 30 May 1980. As the Commission points out in its report to the Council in implementation of the Mandate[1] this reform must respect the three indissoluble principles on which the common agricultural policy is based - single market, financial solidarity and Community preference. There is need for reform to give the CAP greater efficiency, amending the regulations in force to bring them more into line with the objectives pursued, while seeking to take into account two central points:

(a) the need to intervene to eliminate structural surpluses

(b) the need to limit the impact of the CAP on the general budget of the Communities.

This last point is particularly urgent in consideration of the fact that a substantial proportion of the increased expenditure over recent years has been a direct consequence of distortions in the normal and balanced operation of the agricultural policy.

2. Position adopted by the European Parliament

The priorities set out in the preceding point are in line with the position adopted on many occasions by the European Parliament or its bodies in the recent past: particular note should be taken of:

(a) the resolution of 12 March 1981 on 'the European Parliament's guidelines for the financial and budgetary policy of the European Communities for 1982'[2], which lists the priority sectors of the budget and the procedures which should be adopted to achieve greater control over agricultural spending: the resolution also asks the Commission to bring forward the date for presentation of its proposals on amendments to the agricultural regulations and on the creation of new own resources;

(b) the resolution of 17 June 1981 on possible improvements to the common agricultural policy[3], in which it stresses that 'an improvement is needed in control over the increase in production and its budgetary implications, and structural surplus production must be eliminated',

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1 Bulletin of the European Communities, supplement 1/81

2 OJ No. C 77, 6.4.1981

3 OJ No. C 172, 13.7.1981

pointing out that 'it has not proved possible to rely on the price policy alone to ensure reasonable incomes to producers, to promote economic vitality in the regions, and, at the same time, to guide adequately the pattern and the level of agricultural production';

(c) the resolution of 5 November 1981 on the draft general budget of the European Communities for 1982 (section III - Commission)[1] in which particular stress is laid on the need for the adjustments to the CAP and the future guidelines for the Community, in the context of the implementation of the Mandate of 30 May and the launching of new structural policies, to be reflected in the 1982 budget.

Account should also be taken of the opinions adopted by the Committee on Budgets on the fixing of agricultural prices for the marketing years 1980-1981[2] and 1981-1982[3]; these opinions stressed the same points: in particular measures designed to protect agricultural incomes should take account of the overriding need to limit structural surpluses; serious doubts were also expressed about the effectiveness of the co-responsibility policy in the dairy sector and a request was put forward for a more courageous policy to reduce monetary compensatory amounts and indeed (1982 opinion), to abolish them altogether.

3. The protection of agricultural incomes

As is apparent from the working document by the Committee on Agriculture on the Commission's proposals for the fixing of prices for 1982-1983[4], it is difficult to paint a complete and consistent picture of the progress of agricultural incomes in the Community: for although the overall figure (taking as a basis EUR 9:1974 = 100) shows a reduction of 11.8% (EUR 9:1981 = 88.2%) in real terms over the period in question, this in fact conceals widely differing trends between the Member States (from an increase of 7.5% to a fall of 24.3%).

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1 OJ No. C 311, 30.11.1981
2 Doc. 1-37/80/Annexe I
3 Doc. 1-50/81/Annexe
4 PE 77.140/I and 77.140/V

The farm price fixing machinery compensates for differential rates of inflation through the mechanism of monetary compensatory amounts on the basis of their effects on changes in the exchange rates, while ignoring the influence of numerous other factors on those rates. This highlights the difficulty of fixing a price increase upon a truly objective basis, since as long as there are wide differences in rates of inflation, every attempt to fix common prices, even with the correctives of the MCAs, will lead to distortions according to the economic and productive variables in each country.

The important figure to be borne in mind, at all events, is the average figure which shows a fall in real terms, in the period when other socio-professional categories showed an average increase, in some cases a very substantial one. The problem of protecting farm incomes, which does not mean giving them automatic protection , a privilege other categories do not enjoy, is therefore a very real one.

4. Disorders of the common agricultural policy

The principal system employed for guaranteeing incomes, i.e. price increases for individual products, raises the problem of the negative effects of these measures, in terms of disorders and waste.

When considering an increase in market intervention prices one cannot therefore ignore the following points in conection with the creation and disposal of surpluses:

(1) it should be pointed out that 40% of the cost of the CAP is attributable to export refunds and to the cost of disposing on international markets of stocks which the Community has accumulated as a result of intervention on agricultural markets;

(2) the commercial policy pursued by the Commission in agriculture should follow precise and planned criteria, corresponding to a correct management of stocks, not passively following the fluctuations of markets, but taking account of opportunities to set and obtain more profitable prices, and of opportunities to reduce the costs of storage, taking into account both the operation of the system and the deterioration of the products in storage, while having regard, naturally, to the Community's supply needs;

(3) it is necessary, in order to avoid the disruptive effects of price increases of some products, and at the same time to protect farming in certain production areas and among certain types of producer, that the Community adopt an effective structural policy, which is an essential instrument for long-term reform of the guarantee policy and the distortions which it creates at present.

5. The Commission's proposals: the figures

The document 'Commission proposals on the fixing of prices for certain agricultural products and on certain related measures (1982-1983)'[1] sets out, in Volume II ('financial implications'), a number of assessments of the costs and the financial impact of the package of measures in question.

In this connection it should be pointed out that once again the Commission has failed to supply any detail on the principles or methods followed in drawing up these calculations; this is to be deplored since already in the 1980 opinion[2] the Committee on Budgets had noted a lack of consistency in the financial estimates contained in the documents forwarded by the Commission, calling in future for Parliament to be supplied with a much more detailed breakdown; the Commission has unfortunately turned a deaf ear to this request, which was repeated in the 1981 opinion[3], in spite of the fact that the Commission's estimates for 1981 in the agricultural field turned out to be particularly inaccurate and its methods of calculation have been severely criticized by the Committee on Agriculture in its document on the mandate of 30 May 1980[4].

On the basis of the Commission's estimates, the effects for 1982 of the proposals are as follows:

PRICE INCREASES

the cost of a 1% increase in the prices concerned would mean:

. an increase in EAGGF Guarantee expenditure of	+ 70 m ECU
. an increase in agricultural own resources of	+ 13
net cost:	+ 57

the cost of the Commission's proposals on prices would therefore be:

. EAGGF Guarantee	+ 585 m ECU
. agricultural own resources	+ 99
net cost:	+ 486

1 COM(82) 10 final

2 Doc. 1-37/80/Annex I, page 13

3 Doc. 1-50/81/Annex, page 18

4 PE 76.088

AGRI-MONETARY ADJUSTMENTS

The impact of a one point reduction in monetary compensatory amounts varies greatly depending on whether they are positive or negative and on the agricultural trade balance of the Member State:

Germany	:	- 20 m ECU
Netherlands	:	- 18
United Kingdom	:	- 6
Italy	:	- 13

The effect of the Commission's proposal is therefore:

. Reduction in the burden on the EAGGF Guarantee	- 165 m ECU
. Reduction in agricultural own resources	- 30
Net effect	- 135

RELATED MEASURES

The cost of the related measures can be seen from the following estimate:

. Increase in EAGGF Guarantee expenditure	+ 126 m ECU
. Increase in EAGGF Guarantee revenue	+ 86
Net cost	+ 40

OVERALL COST

The overall cost of the proposed measures can therefore be seen from the following table:

	Prices	Agri-monetary measures	Related measures	Total
EAGGF Guarantee	+ 585	- 165	+ 40	+ 460
Agricultural own resources	+ 99	- 30		+ 69
Net cost	+ 486	- 135		+ 391

This net overall cost (391 m ECU) should be distinguished from the amount actually to be financed from the 1982 budget; when assessing the impact of the 1982 budget account should be taken not only of the + 391 m ECU but also of:

(a) the adjustment to present values, taking account of the devaluation of the lira, of MCAs initially planned in the

1982 budget (365 m ECU) on the basis of the change in parity of the Mark and Florin (October 1981), subsequently reduced by 215 m ECU by the Council + 156

(b) advance accounting for extension of butter consumption aid - 94

(c) increase in refunds to the Member States, corresponding to 10% of the increase in own resources + 7

+ 460

This amount represents the effective budgetary impact of the package of measures.

Impact over 12 months

To take account of the effect in cost terms over 12 months of the proposed measures - and a proportion of this cost will fall under the 1983 budget - it is necessary to consider two assumptions about the trend in agricultural prices on the world market:

1st ASSUMPTION: constant world prices

Cost over 12 months of a 1% increase in prices:

. Increase in EAGGF Guarantee expenditure	+ 210 m ECU
. Increase in agricultural own resources	+ 57
Net cost	+ 153

The cost of the Commission's price proposals would therefore be;

. Increase in EAGGF Guarantee expenditure	+ 1,770 m ECU
. Increase in agricultural own resources	+ 484
Net cost	+ 1,286

This net cost would be spread over the 1982 budget, 486 m ECU, and the 1983 budget, 800 m ECU.

2nd ASSUMPTION: variable world prices

Assuming that world prices rise at the same rate as that projected for Community farm prices, the following figures apply:

Cost over 12 months of a 1% increase in prices:

. Increase in EAGGF Guarantee expenditure	+ 119 m ECU
. Increase in agricultural own resources	+ 24
Net cost	+ 95.

The cost over 12 months of the Commission's price proposals would therefore be:

. Increase in EAGGF Guarantee expenditure	+ 998 m ECU
. Increase in agricultural own resources	+ 198
Net cost	+ 800

Agri-monetary measures

The cost over 12 months of a 1 point reduction in MCAs is as follows:

Germany	- 29 m ECU
Netherlands	- 45
United Kingdom	- 3
Italy	- 16

The cost impact over 12 months of the Commission's proposals is as follows:

. Reduction in EAGGF Guarantee expenditure	- 318 m ECU
. Reduction in agricultural own resources	- 131
Net impact	- 187

Related measures

. Increase in costs	+ 293 m ECU
. Increase in revenue	+ 228
Net cost	+ 65

OVERALL IMPACT over 12 months (in m ECU)

Prices	1st Assumption + 1,286	2nd Assumption + 800
MCAs	- 187	- 187
Related measures	+ 65	+ 65
Total cost	+ 1,164 (391 1982 budget (753 1983 budget	+ 678 (391 1982 budget (287 1983 budget

6. Financing of additional costs and own resources

The relevant Commission document points out (page 10) that the average rate of increase of expenditure of the EAGGF Guarantee Section from 1979 to 1982 remained lower (+ 10.1% per annum) than that of own resources (+12.1% per annum). This has undoubtedly been a positive feature of the management of the agricultural policy in recent years, but it should not hide the fact that last year this trend was reversed, leading to an 18% increase (in 1982 over 1981) in EAGGF Guarantee expenditure, compared with an increase of 15.4% in own resources.

Underlying the considerable increase in agricultural expenditure (in 1982 over 1981) is undoubtedly the serious inaccuracy in the forecasts drawn up by the Commission, which on two occasions during the financial year asked for a review of the figures on the EAGGF Guarantee budget lines, with the result that two amending budgets were introduced leading to substantial reductions in this expenditure.

It would now appear that for the 1982 budget too, the Commission's estimates have been too high: from statements made by its representatives to the Committee on Budgets, it would appear that the expected savings (560 m ECU) will prove more than sufficient to finance the budgetary requirements for these measures (460 m ECU). This is undoubtedly of prime importance, since if it proves necessary to meet these requirements by a supplementary budget, it would further reduce the already narrow margin available to the Community before the ceiling of own resources is reached.

A number of figures will demonstrate this: in the 1982 budget, section III (Commission), involves expenditure of 21,610 m ECU. Of this, titles 1, 2 and 3 (CAP: EAGGF Guarantee and Guidance and Fisheries) account for 14,531 m ECU) or 67%.

The VAT rate used to meet requirements for own resources in 1982 is 0.9248%, producing revenue of 11,998 m ECU.

The VAT margin still available before the ceiling is reached is, on the basis of the present taxable basis, 976 m ECU: if the finance required for the measures in question (460 m ECU) had to be met through a supplementary budget, this would lead to a considerable narrowing of the margin which would fall to 516 m ECU, while the VAT rate would have to be increased to 0.9602%.

7. Analysis of specific problems

It should be made clear here that the opinion of the Committee on Budgets is limited to the Commission's proposals, and is concerned with the effects and the compatibility with sums available in the 1982 budget and in general, of the budgetary policy pursued by the European Parliament in the interests of the Community. Closer analysis of the technical and economic aspects of the individual measures is clearly the responsibility of the Committee on Agriculture.

As regards the proposed price increases we would point out that COPA had proposed an increase of 16.3%, which they claimed was based on the 'objective method': but it should be stressed that the objective method cannot be adopted at present as an automatic indexing measure; it must be included as one of the elements to be taken into account, bearing in mind that the regulations in force in agriculture do not allow for reductions in expenditure during the course of the marketing year: the only time when a political assessment of the options can be made is therefore during the fixing of agricultural prices and the related measures.

In general terms, it can be noted that agricultural expenditure, which in 1973 accounted for 77.7% of the budget, was kept down in 1981 to 62.8%: this demonstrates that the cost of managing markets is not indexed in any absolute sense, but can be restricted through a prudent policy on common prices and through careful management of stocks and refunds. The result has been that the rate of increase in agricultural expenditure (23.3% per annum) in the period 1975-1979, was substantially higher than the average rate of inflation, whereas in 1979-1982, with a figure of approximately 10%, it was more or less equal to the rate of inflation.

On a number of more specific points, it should be pointed out that as regards the price hierarchy, the spread of the increases proposed is too narrow (from a minimum of 5.3% to a maximum of 12%), particularly since the increase for most of the products is close to the average of 9%; a wider range would be desirable to take more particular account of products which are in deficit and of the specialized products of the economically less-favoured countries.

In particular the Commission decision to maintain a price hierarchy which means that the increases in cereals prices are lower than the increase for animal products, is likely to penalize heavily Mediterranean products.

As for agri-monetary measures, these are the corrective instrument at present used to deal with differential inflation rates; this instrument is all the more necessary when there is a wide difference between inflation rates. However, instruments such as this are inconsistent with the principle of single prices and only acceptable in exceptional circumstances: the European Parliament has frequently called for their abolition. Since, however, wide differences in inflation rates do exist, these measures must be kept in force to some extent as they are an essential way of restoring a certain balance in the present situation. Their definitive abolition will come about only within the context of a complete definition of monetary rules, and accompanied by permanent instruments for taking action. We have referred in previous paragraphs to the substantial influence of MCAs in adjusting the price increases in the Member States and on the long-term development of prices.

To take only the example of the reduction of MCAs in Germany and the

United Kingdom, this is justified by the fact that the MCAs in these countries are only slightly lower than the average rate of increase in farm prices and therefore if they were abolished entirely there would be no room left for any increase. This would prove even more serious in that whereas in the past labour costs normally increased faster than other costs and the countries with high inflation rates were those with highly labour-intensive production, more recently on the other hand increases in other costs have been higher than increases in labour costs.

As regards the related measures, the Commission proposes to maintain a general rate of co-responsibility of 2.5%.

However, it would be far more advisable to limit co-responsibility solely to products taken into intervention, thus penalizing not those who produce for an existing market but only those who produce for intervention. A more flexible application of the co-responsibility levy would be in line with the wishes expressed by Parliament in its resolution of 17 June 1981[1], in which it points out in particular that 'the basic linear co-responsibility levy has failed to control overproduction above market requirements, has acted as an incentive to expand output and has increased the burden on the taxpayer'.

The income from the co-responsibility levy, furthermore, is re-used only in part in the dairy sector: in 1981 for example, of 508 m ECU from the levy only 90 to 100 were used in this sector. It is now planned to re-use 120 m ECU for support for small producers: while approving this principle, it must be pointed out that there is still a great deal of uncertainty about what aid systems will be adopted and the respective effects of each system[2].

The problem of co-responsibility in the dairy sector is further complicated by the fact that in this specific sector the Commission's proposals provide for no automatic link between exceeding the production objectives and the reduction in the intervention price: the proposals simply state that if the target is exceeded, 'appropriate measures' will be taken. The Commission should therefore be asked to specify what measures it does intend to apply, although it is to be deplored that in this crucial sector of the common agricultural policy the principle of automatic price reductions has been abandoned.

As regards aid to small producers, the principle applied for durum wheat, limiting aid to certain regions, seems illogical as it is clear that the yield in these regions, which are situated in areas of widely differing geographical and physical characteristics, varies substantially; it would therefore be more logical to take the yield of the producer as a basis for limiting aid.

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[1] OJ C 172, 13.7.1981

[2] See in this connection the working document of the Committee on Agriculture, PE 77.140

Lastly, it should be pointed out that the principle applied by the Commission in its price proposals for 1982-1983, of fixing a threshold corresponding to the production targets fixed for 1982, which, if exceeded, would lead to an automatic reduction in guaranteed prices for the following year, should be welcomed, since it specifically affects production for intervention and not economically viable production.

Note should be taken, however, of the misgivings expressed by the Committee on Agriculture about whether the Commission's forecasts on trends in consumption and the level of production targets are realistic[1]; here too the Commission should be asked to provide further information on its methods of calculation.

8. Implementation of the mandate of 30 May

It is impossible to deal with the question of the fixing of agricultural prices and related measures without mentioning their place in the context of the implementation of the mandate of 30 May.

The fundamental principles applied in this operation (production targets, thresholds) are presented by the Commission[2] as the beginning of a process of restructuring the common agricultural policy in implementation of the mandate.

While it is possible to see in these proposals an attempt to correct the errors and distortions of the CAP and to solve the basic problems which it poses for the finances of the Community, it is necessary to point out that in spite of the repeated requests by Parliament to bring forward to the 1982 financial year a number of measures which are in themselves a response to the mandate, the Commission's action has been inadequate and above all designed to come into effect only from the 1983 financial year. Attention should also be drawn to the delays in the proposals on structural policy: in this sector the Commission will probably confine itself in 1982 to proposing an extension of the socio-structural directives.

9. On the fixing of agricultural prices

The regulations on the common organization of the most important markets (milk products, cereals, beef and veal) specify that prices are to be fixed before 1 August of the year preceding the beginning of the marketing year in question. However, it is unfortunately the case that the standard practice followed in this matter not only infringes the Community rules but leads to a significant complication of the

[1] Working document on the mandate of 30 May, PE 76.088

[2] See mandate of 30 May 1980; guidelines for European agriculture - Memorandum to complement the Commission's report - COM(81) 608 final

budgetary procedure since at the time when the general budget of the Communities is drawn up it is not known what decisions will be taken on the agricultural sector (which, we repeat, generally accounts for more than 60% of Community expenditure), or the consequent financial impact.

Bringing forward the fixing of agricultural prices to a date which will make it possible to respect Community rules and at the same time facilitate the careful drafting of a realistic budget, is something which has been requested by Parliament and the specialized committees on several occasions and is a request which should be repeated now.

CONCLUSIONS

The Committee on Budgets

1. Confirms that the increase in agricultural prices is indispensable to the safeguarding of farmers' incomes which are tending to fall as a result of structural conditions and short-term economic trends, both absolutely and relative to other social categories of producer, also having ragard to the differences in income between categories of agricultural producers and disparities due to the concentration of production in different regions;

2. Points out that the increase should not exceed the limit which enables the objective referred to above to be attained;

3. Takes note of the percentage increases of agricultural prices proposed by the Commission for individual products for the 1982/83 marketing year which give rise to an average increase of 9%; observes, however, that the breakdown of the proposed increases is inadequate and as a result they do not seem to take sufficient account of the aims mentioned in paragraph 1 above;

4. Also takes note of the proposals for related measures which should form, with the proposals on prices, a single indivisible whole;

As regards the co-responsibility policy and related measures

5. Welcomes the partial implementation of the principles set out by the Commission in the memorandum accompanying the Commission's report on the mandate of 30 May 1980 which aims to define medium-term production objectives for the main surplus products;

6. Reaffirms that the automatic reduction of the intervention price where production exceeds the defined targets is an effective instrument for containing agricultural expenditure and ensuring producer partici-pation in the cost of disposing of surplus production;

7. Welcomes the restriction of the increase in milk deliveries to 0.5% a year, a rate corresponding to the estimated increase in consumption and emphasizes that any amount in excess of this level will require the application of measures designed to eliminate the surplus production;

8. Stresses, furthermore, the need for the Commission to specify clearly what provisions it intends to adopt if the production target is exceeded.

9. Would point out, however, that the new instrument referred to in paragraph 6 will, it is to be hoped, come into operation after the price fixing for the marketing year 1983/84 and that it will therefore have no bearing on the financial consequences of the increases in agricultural prices under examination;

10. Notes that the financial burden arising from the increase of 9% in the target price for milk will be only partially compensated by the maintenance of a co-responsibility levy which essentially acts as a tax on consumption;

As regards the monetary compensatory amounts

11. Recalls having requested, in its opinion on the 1981/82 prices, the abolition of all MCAs at the time of the examination of prices for 1982/83; considers, however, that the large divergencies in inflation rates require measures which can annul or, at the very least, reduce the undesirable effects on the incomes of farmers at least until such time as greater and more effective monetary discipline prevails in the Community;

12. Approves in principle the reduction in the MCAs while not expressing a view on the rate of reduction;

As regards the financing of the Commission's proposals

13. Observes that the Commission proposals can at best leave unaltered the share of expenditure devoted to guaranteeing agricultural markets, in relation to the total budget for 1982;

14. Notes that, after several years in which agricultural spending has been contained within the limits of own resources, the rate of increase of expenditure in 1982 for guaranteeing the agricultural market is greater than that of own resources, and considers that agricultural expenditure, in the proper sense of the phrase, should be more clearly defined within total agricultural spending so that greater budgetary transparency and a clearer identification of the rates of increase can be obtained;

15. Notes with concern the difficulty of evaluating with sufficient accuracy, when drawing up the annual budget estimates, the average estimated trend of the world markets and points to the consequences of these difficulties for the structure of the budget and for the practical evaluation of ways of making the best use of agricultural resources;

16. Draws attention to the need to do everything possible to make these evaluations more detailed and to ensure that they are presented at the right time;

17. Notes that in the 1982 budget there is no provision for a specific operational reserve to cover the increase in expenditure resulting from the new agricultural price fixing; that there is only a marginal reserve for costs resulting from related measures; that the percentage VAT rate has already attained 0.9248; that the margin remaining before the ceiling in own resources is reached is therefore slim;

18. Is therefore concerned at the statements made by the Commission in its written proposal on the subject of financing the 1982 budget according to which it is not possible to estimate exactly the possible savings which could be made and a supplementary budget could therefore be necessary;

19. Reaffirms in this regard that it is absolutely necessary for the Commission to possess the necessary means to forecast in a clear and timely manner the development of the markets and the financial consequences of the measures that it proposes and that it puts this information at the disposal of the European Parliament as soon as possible;

20. Is pursuaded that it is possible during the 1982 financial year to make considerable savings - as it had initially forecast in the 1981 budget, a forecast which was shown by events to be completely right - and considers therefore that the financial consequences of the '1982/83 agricultural price fixing and related measures' should be financed without exceeding the total amount of agricultural expenditure provided in the 1982 budget; stresses that on the basis of the present figures supplied by the Commission it is possible to avoid a supplementary budget;

21. Affirms that proposals relating to agricultural prices should in future be presented earlier as provided in the majority of the regulations relating to the common organization of the market so that decisions on the budget and on agricultural price fixing may be taken at the same time.

OPINION OF THE COMMITTEE ON THE ENVIRONMENT, PUBLIC HEALTH AND CONSUMER PROTECTION

Draftsman: Mr C. BERKHOUWER

At its meeting of 23 February 1982 the Committee on the Environment, Public Health and Consumer Protection appointed Mr Berkhouwer draftsman.

It considered the draft opinion at its meeting of 11 March 1982 and adopted it by seven votes to none with two abstentions.

Took part in the vote:
Mr Collins, chairman; Mr Johnson, vice-chairman; Mr Berkhouwer, draftsman; Miss Hooper, Mrs Krouwel-Vlam, Mr Muntingh, Mr Remilly, Mrs Seibel-Emmerling and Mr Sherlock.

1. One of the principal aims of the Common Agricultural Policy is to ensure security of supply at stable prices. Further, the Treaty of Rome (Article 39(e)) requires that account be taken of consumers' interests by ensuring this supply at reasonable prices.

2. This Committee fully recognises that the economic situation continues to deteriorate and that incomes from agriculture continue to pose problems both by the great divergence between Member States and the actual level of these incomes. However, while also recognizing that in order to improve the situation of agriculture structural reforms are necessary, it is not its intention to propose such reforms but rather to confine itself to consideration of the effects on consumers of the Commission's proposal.

3. When delivering its opinion on the Commission's proposals on the farm price proposals for 1981/82 (Hooper opinion - Doc. 1-50/81 annex) the Committee made a certain number of observations, notably:

- that the Commission had given insufficient consideration in drawing up its proposal to the interests of consumers;
- that the Commission estimate of the effect on food prices of the proposed increase in farm prices had not taken sufficiently into account the increases added by processors and distributors;
- that the co-responsibility levy was not the most effective way of tackling surpluses, and
- that agriculture prices could not, in themselves, resolve the question of farmers' incomes.

4. It would seem to this Committee that these points have fallen on deaf ears and this despite the fact that there was little divergence between much of what was requested at that time both by this Committee and by the Committee on Agriculture.

5. This Committee has, therefore, no option but to reiterate and re-emphasise the above points:

(i) The CAP must be seen in a wider context than at present. It should not only be concerned with prices but should reflect public concern over food quality, nutritional values and the state of the environment. To this end there must be better representation of and consultation with all interests involved in the food chain, that is, with processors and consumers as well as producers.

(ii) Although the Commission's estimate of the impact of this proposal on food prices as being 3% tends to be corroborated by external evidence, the method of calculation leaves much to be desired. The Committee, therefore, repeats its request to the Commission to produce a product-by-product analysis of the effect of farm price rises. This request was not only made in last year's opinion, but also in the report drawn up by Mr Willi MÜLLER on the relationship between producer prices, middlemen's profit margins and the final selling price to consumers of agricultural products - (Doc. 404/78).

In its explanatory memorandum the Commission points out that the increase of 3% in food prices corresponds to about ½% increase of the cost of living. It would be dangerous to assume from this that proposed price increases have little effect overall. It has been shown that as income declines the share of expenditure on food increases, so that even a minor increase could have serious consequences for those in the lower income brackets. The Committee therefore requests that in the end the price increase for each product should not have any extra inflationary effect.

(iii) It has been repeatedly pointed out both by this Committee and by the Committee on Agriculture that the co-responsibility levy on milk has proved unsatisfactory. It has failed to restrain production and has merely served to increase prices to consumers. Despite the mounting criticism of this mecanism the Commission proposes that this levy should continue in 1982/83 at the same rate and under the same conditions as in 1981/82. This Committee cannot accept this proposal and demands that the levy be abolished forthwith.

(iv) The Committee considers that the Commission's proposed increases in certain sectors and in particular the dairy sector are too high and, without far-reaching changes in production methods, this would simply result in increasing excess production. To compound this situation the Commission has been deliberately vague in outlining measures to counterbalance the additional costs of excess production merely mentioning that should the production threshold for milk be exceeded the Commission will immediately propose "appropriate measures" to counterbalance the additional costs.

Finally, the Committee notes the Commission's concern with stagnant or declining consumption in certain sectors. This concern seems inconsistent with the price increases proposed, which in the long-term may lead to a greater decline in consumption of these products.

These price increases are also inconsistent with the first guideline proposed in the Commission's memorandum of 23 October 1981[1] which provided that "future decisions would be based on a price policy based on the narrowing of the gap between Community prices and prices applied by its main competitors".

6. This Committee, therefore, requests the Committee on Agriculture to take into account the above criticisms of the Commission's proposals and to incorporate them into its motion for a resolution.

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[1] COM (81) 608 final

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman: Mr R. COHEN

On 25 February 1982 the Committee on Development and Cooperation appointed Mr Cohen draftsman.

The committee considered the draft opinion at its meeting of 18 March 1982 and adopted it unanimously with three abstentions.

Took part in the vote: Mr Poniatowski, chairman; Mr Bersani and Mr Kühn, vice-chairmen; Mr Cohen, draftsman; Mr Deniau, Mr de Courcy Ling, Mr Deschamps (deputizing for Mr Luster), Mr Ferrero, Mrs Focke, Mr Michel, Mrs Pruvot (deputizing for Mr Sablé) and Mr Wedekind.

INTRODUCTION

In its opinion for the Committee on Agriculture on the proposals from the Commission of the European Communities on the fixing of prices for certain agricultural products, the Committee on Development and Cooperation will confine itself strictly to the aspects of the proposals that have a direct bearing on the developing countries. It must of course be recognized that the different aspects of the proposals - price levels, production management, co-responsibility levies, etc. - will have an impact on the situation in agriculture in developing countries. It is for that reason that the Committee on Development and Cooperation has been asked for its opinion, and it is and remains necessary for the Community's agricultural policy to be critically monitored by this committee. It is of course true that in addition to agricultural policy, regular checks should be made on other Community policies to determine their acceptability or otherwise as regards their impact on developing countries. At a time when consideration for developing countries is beginning to diminish as a consequence of the economic crisis, it is not inappropriate to repeat this general truth here. Ultimately, the objective of development policy - in addition to relieving distress and abolishing the direst poverty - is to promote the self-sufficiency and self-reliance of the countries of the Third World so as to enable them to take their rightful place in the community of nations. This will not only be to their advantage, but also to ours. Your rapporteur feels bound to state that his task would have been made much easier if the Commission of the European Communities had acted on the request contained in the Ferrero resolution[1] and published a study on the impact of Community agricultural policy on the developing countries. Although that request was made more than a year ago, the study is still not available. One can only say that this indicates considerable negligence on the part of the Commission, and urge once again that this study shoud speedily be made available.

GENERAL OBSERVATIONS

A characteristic of most developing countries is the large percentage of the working population engaged in agriculture. The average income of the working population is much lower than in other sectors of the economy. If average per capita income rises, the percentage of the working population engaged in agriculture declines, but the absolute number of those employed in agriculture often rises.

Agriculture in most developing countries is not confined to producing for direct internal consumption, but is, or at all events can be, an important source of foreign currency earnings. The growth in exports of agricultural

[1] OJ No. C 265, 13 October 1980

products from a number of developing countries is impeded by the agricultural policy pursued in most developed countries (sugar, meat, fruit), the already high consumption in developed countries of a number of products, and the taxes or other levies imposed on many products (coffee, tea, cocoa) and by competition from synthetic substitutes (rubber, cotton, jute). Moreover, exports of processed products are restricted by the fact that the duties imposed by the developed countries increase with the extent to which a product has been processed, and by a whole series of other obstacles to trade that are part and parcel of the agricultural policy pursued.

Although the emphasis has - rightly - been placed in recent years on increasing agricultural production in the developing countries as a means of combatting widespread hunger, this cannot and does not mean that the export needs of these countries should not also be taken into consideration. So long as a reasonable industrial base is absent in many of these countries, they will remain dependent on exports of agricultural products produced in sufficient quantities to cover their import needs. For the industrialized world - including the European Community - to pursue an agricultural policy that restricts these export possibilities is quite as damaging to the development prospects of these countries as any other restrictive practices.

But the impact of the agricultural policy pursued in the industrialized world goes further. Not only can it have a negative effect on exports from the developing countries, but their production capacity can be affected. The prices on the world market for a number of products such as cereals and sugar are to a great extent determined by decisions taken in the industrialized world on agricultural policy, and these decisions are often what determines whether production in developing countries is or is not viable.

It is in the light of these general considerations that the following comments by the Committee on Development and Cooperation on a number of proposals from the Commission of the European Communities must be seen.

Your rapporteur will now turn in more detail to the problems for developing countries resulting from the impact of Community policy in the sugar, cereals and fruit and vegetable sectors.

Sugar

To place the problem in perspective it will be convenient to reproduce some figures:

In 1981, Community production totalled	15 million tons
plus + 'ACP sugar'	1.3 million tons
	16.3 million tons
- Community consumption totalled	9.6 million tons
- leaving a surplus available for export of	6.7 million tons

If such a large quantity of sugar were to be placed on the world market, prices would plummet. Faced with this situation, the Community decided to stock 2 million tons, leaving a further 4.7 million tons for export.

It should also be stressed that world sugar prices have fallen to a level where it is now cheaper for the Community to provide storage than to pay export refunds.

These 4.7 million tons are nothing short of a threat to the world sugar market. With such a large quantity at its disposal, the Community can exert the greatest pressure of all world producers on the world market. There is a serious danger that the problem will become more acute during the 1982 marketing year.

Before seeking possible solutions, it is important to clarify those elements that our committee and the European Parliament hold to be unnegotiable. This primarily concerns implementation of the Sugar Protocol i.e., the 1.3 million tons delivered annually by the ACP countries to the Community at a guaranteed price.

Secondly, there is the Community obligation to accede as soon as possible to the International Sugar Agreement.

Moreover, there can be no negotiation on the price paid to beet producers as proposed by the Commission (plus 9%), an increase approximately in line with the rate of inflation.

Considering moreover that the regulation on the organization of the market in sugar does not expire until 1985, and that real control of production would not therefore be possible before that date, your rapporteur can only conclude that the problem, which will probably become even more acute in 1982, simply has no solution. Unless, that is, renewed consideration is given to a proposal that was rejected during discussions on the new sugar regulation consisting of abolishing the B quotas. Since this has a more or less direct bearing on the medium and long-term problems posed by the ACP Sugar Protocol, these aspects will need to be considered in the own-initiative report by our committee on this subject.

Cereals

Here too the problem is not the level of the price increase proposed by the Commission. The real problem is the influence of Community production on that of developing countries. In particular, Community food aid in the form of cereals, together with the present proposals for long-term delivery contracts (the two items are, at least **in part,** a function of Community production levels), could have the secondary effect of inhibiting developing-country production.

The ideal solution would be to fix a production level within the Community that took the requirements of developing-country food and agricultural programmes into account. **At all events,** a full understanding of this inter-dependence will only be possible on the basis of the report that the Commission of the European Communities should be drawing up on the effect and consequences of food aid policy on the situation of the developing countries.

A second point concerns the voluntary restriction agreement on the export of manioc signed by Thailand. Similar agreements are being negotiated with Indonesia and Brazil. The rapporteur for the Committee on Agriculture, Mr CURRY, has proposed that tariff quotas should be established for these cereals substitutes. Imports into the Community in excess of the quotas would be taxed at very high rates.

The question arises as to whether these solutions would be acceptable to countries like Thailand or Indonesia, for which manioc exports are a major item in their international trade. It should be noted that following the self-limitation agreement, the price paid to Thai manioc producers has already fallen by 50%. The fact that the Community has committed itself to helping these countries with their agricultural output diversification policy does not necessarily constitute a reply to our objection. In fact the new production could well end up competing directly with Community production, and one problem would simply have been substituted for another.

Fruit and vegetables

Our committee has always stressed the need for Community markets to be made more open to developing country fruit and vegetable production. Obviously, any such policy would cause serious difficulties for Community producers unless it was accompanied by other measures. A first and very partial such measure would consist in better organization in the timing of Community production, so that the developing countries could take maximum advantage of their ability to export out of season.

In reality, the conflict of interests between European producers and those in the developing countries, a conflict that can only get worse with the enlargement of the Community, cannot be solved in the long-term except by means of Community support, **not for prices,** but for reform in the agricultural structures of the regions concerned.

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Without claiming to have reached definitive conclusions in this brief opinion (and reserving the right to propose amendments to the CURRY resolution to the Committee on Development and Cooperation when it has been approved by the Committee on Agriculture) your rapporteur will confine himself to stressing one aspect of the Commission's proposals. If it is true that these proposals reflect the Commission's concern over Community surplus production, then its concern is due merely to the budgetary consequences of the policy. On the other hand, the Commission has hitherto failed to show corresponding concern for the impact of the common agricultural policy on developing countries.